

COMMUNITY DEVELOPMENT COMMISSION
OF THE CITY OF NATIONAL CITY

Morgan Towers Enterprise Fund
HUD Project No. 129-38013-PB-WAH-L8

Financial Statements and
Single Audit Report on Federal Award Programs

Year Ended June 30, 2009

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COMMUNITY DEVELOPMENT COMMISSION
OF THE CITY OF NATIONAL CITY

Morgan Towers Enterprise Fund
HUD Project No. 129-38013-PB-WAH-L8

Financial Statements and
Single Audit Report on Federal Award Programs

Year Ended June 30, 2009

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Board of Directors
Community Development Commission of the City of National City
National City, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the Morgan Towers Enterprise Fund, HUD Project No. 129-38013-PB-WAH-L8, of the Community Development Commission of the City of National City ("Commission") as of June 30, 2009 and for the year then ended. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Morgan Towers Enterprise Fund of the Commission as of June 30, 2009, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2009 on our consideration of the Morgan Towers Enterprise Fund of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information have been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

Mayer Hoffman McCann P.C.

Irvine, California
September 18, 2009

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FINANCIAL STATEMENTS

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COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Morgan Towers Enterprise Fund

Statement of Net Assets

June 30, 2009

Assets

Current assets:

1110	Petty cash	\$ 175
1120	Cash - operations	77,591
1130	Tenant account receivable	<u>5,886</u>
	Total current assets	<u>83,652</u>

Deposits held in trust:

1191	Tenant security deposits	<u>44,145</u>
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Prepaid expenses:

1240	Prepaid insurance	31,142
1250	Prepaid workers' compensation insurance	2,756
1260	Prepaid mortgage insurance	2,273
1290	Prepaid other expenses	<u>57</u>
	Total prepaid expenses	<u>36,228</u>

Restricted deposits and funded reserves:

1311	MIP impounds	11,288
1312	Insurance impounds	4,672
1321	Reserve for replacements - GMAC	498,034
1341	Residual receipts reserve - GMAC	<u>225,727</u>
	Total restricted deposits and funded reserves	<u>739,721</u>

Capital assets:

1410	Land	212,568
1420	Building	5,488,048
1430	Building equipment - fixed	1,650,317
1440	Building equipment - portable	<u>147,960</u>
	Total capital assets	7,498,893

Less:	accumulated depreciation	<u>(4,509,717)</u>
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	Net capital assets	<u>2,989,176</u>
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	Total assets	<u>\$ 3,892,922</u>
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See accompanying note to the financial statements.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Morgan Towers Enterprise Fund

Statement of Net Assets

(Continued)

Liabilities and Net Assets

Current liabilities:

2110	Accounts payable	\$ 68,103
2120	Accrued payable	17,320
2320	Mortgage payable - current portion	<u>191,924</u>
	Total current liabilities	<u>277,347</u>

Deposit liabilities:

2191	Tenant security deposits	38,484
2195	Interest on tenant security deposits	<u>5,661</u>
	Total deposits liabilities	<u>44,145</u>

Long-term liabilities

2320	Mortgage payable	2,673,586
Less:	Current portion	<u>(191,924)</u>
	Total long-term liabilities	<u>2,481,662</u>
	Total liabilities	<u>2,803,154</u>

Net assets:

3131	Net assets	<u>1,089,768</u>
	Total liabilities and net assets	<u>\$ 3,892,922</u>

See accompanying note to the financial statements.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Morgan Towers Enterprise Fund

Statement of Profit and Loss and Changes in Net Assets

Year Ended June 30, 2009

Rental revenue:

Rent revenue:

5120	Rent revenue	\$ 537,410
5121	Tenant assistance payments	<u>613,345</u>
	Total rent revenue	1,150,755

Vacancies:

5220	Apartments	(9,554)
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Concessions:

5250	Rental Concessions	<u>(135)</u>
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	Net rental revenue	<u>1,141,066</u>
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Financial revenue:

5410	Interest income - project operations	276
5430	Interest income - residual receipts	2,747
5440	Interest income - reserve for replacement	<u>6,942</u>
	Total financial revenue	<u>9,965</u>

Other revenue:

5910	Laundry revenue	7,468
5993	Miscellaneous revenue	<u>279</u>
	Total other revenue	<u>7,747</u>
	Total revenue	<u>1,158,778</u>

Expenses:

Administrative expenses:

6210	Advertising / Marketing	527
6305	Service coordinator expense	12,000
6310	Office salaries	14,327
6311	Office expenses	14,690
6320	Management fee	47,880
6330	Manager salaries	44,187
6340	Legal expenses	465
6350	Audit expense	8,725
6351	Bookkeeping/accounting services	1,500
6370	Bad debt expense	65
6391	Resident council expense	<u>1,200</u>

	Total administrative expenses	<u>\$ 145,566</u>
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See accompanying notes to the financial statements

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Morgan Towers Enterprise Fund

Statement of Profit and Loss and Changes in Net Assets

(Continued)

Utilities expense:		
6450	Electricity	\$ 45,741
6451	Water	25,480
6452	Gas	35,832
6453	Sewer	<u>45,600</u>
Total utilities expense		<u>152,653</u>
Operating and maintenance expenses:		
6510	Janitorial/maintenance payroll	91,523
6515	Supplies	37,256
6520	Contracts	136,423
6525	Garbage and trash removal	13,616
6530	Security contracts/payroll	32,294
6546	Heating/cooling repairs	<u>23,670</u>
Total operating and maintenance expenses		<u>334,782</u>
Taxes and insurance:		
6711	Payroll taxes	13,427
6720	Property and liability insurance	35,801
6722	Workers' compensation	12,355
6723	Health insurance and employee benefits	27,339
6790	Miscellaneous licenses	<u>694</u>
Total taxes and insurance		<u>89,616</u>
Financial expenses:		
6820	Interest on mortgage payable	180,179
6850	Mortgage insurance premium	<u>13,780</u>
Total financial expenses		<u>193,959</u>
Total operating expenses before depreciation		<u>916,576</u>
Operating profit before depreciation		242,202
6600	Depreciation	<u>241,130</u>
Operating profit		1,072
Net assets at beginning of year		<u>1,088,696</u>
Net assets at end of year		<u>\$ 1,089,768</u>

See accompanying notes to the financial statements

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Morgan Towers Enterprise Fund

Statement of Cash Flows

Year Ended June 30, 2009

Cash flows from operating activities:

Rental receipts	\$ 522,242
Interest receipts	9,965
Tenant assistance payments	613,345
Laundry receipts and miscellaneous	7,747
Cash paid from operating expenses	<u>(868,947)</u>
Net cash provided by operating activities	<u>284,352</u>

Cash flows from investing activities

Decrease(increase) in reserve for replacement of depreciable assets	(128,626)
Acquisition of equipment	<u>(18,060)</u>
Net cash provided by (used) investing activities	<u>(146,686)</u>

Cash flows from financing activities

Mortgage principal payments	<u>(179,877)</u>
Net cash provided (used) by financing activities	<u>(179,877)</u>

Increase (decrease) in cash	(42,211)
Cash - beginning of period	<u>119,977</u>
Cash - end of period	<u>\$ 77,766</u>

Reconciliation:

Change in net assets	1,072
Adjustments:	
Depreciation	241,130
Decrease (increase) in:	
Tenant account receivable	(5,366)
Prepaid expenses	1,639
Tenant security deposits	(113)
Increase (decrease) in:	
Accounts payable	43,218
Accrued payroll and payroll taxes	2,659
Tenant security deposits	<u>113</u>
Net cash provided by operating activities	<u>\$ 284,352</u>

Supplemental Disclosures:

Interest paid	<u>\$ 180,179</u>
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See accompanying notes to the financial statements

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Morgan Towers Enterprise Fund

Notes to the Financial Statements

Year Ended June 30, 2009

(1) Summary of Significant Accounting Policies

(a) Description of Project

Morgan Towers is an apartment project owned and operated by the Community Development Commission of the City of National City (the "Commission") for the purpose of providing housing for low-income elderly and handicapped persons. The primary purpose of the Commission is to eliminate blighted areas by encouraging the development of residential, commercial, industrial, recreational and public facilities. The Commission is subject to the oversight responsibility of the City Council of the City of National City (the "City"), and accordingly, is a component unit of the City, although it is a separate legal entity.

(b) Basis of Accounting

The Morgan Towers project is accounted for as an enterprise fund (proprietary fund type). A fund is an accounting entity with a self-balancing set of accounts established to record the financial position and results of operations of a specific governmental activity. The activities of proprietary fund types closely resemble those of ongoing businesses in which the purpose is to conserve and add to basic resources while meeting operating expenses from current revenues.

Enterprise funds account for operations that provide services to the general public on a continuous basis and are substantially financed by revenues derived from user charges. As an enterprise fund, Morgan Towers uses the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized as they are incurred.

(c) Rental Income

Rental revenues are subsidized with Federal government funds under a Section 8 contract with the U.S. Department of Housing and Urban Development ("HUD").

(d) Restricted Cash and Investments

In accordance with HUD requirements, Morgan Towers maintains the following restricted cash accounts:

Reserve for replacements of \$498,034 represents a monthly deposit of \$3,127, less current use for replacement, plus income earned thereon. The balance of this reserve will be used for the future replacement of property with HUD's approval.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Morgan Towers Enterprise Fund

Notes to the Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(d) Restricted Cash and Investments, (Continued)

Residual receipts reserve of \$225,727 is an accumulation of surplus cash as calculated by HUD's Computation of Surplus Cash, Distributions and Residual Receipts, which can only be expended with HUD's approval.

Reserve for tenant security deposits of \$44,145 represents amounts collected from tenants which are generally returned to the tenants when they vacate the property. A corresponding liability of \$44,145 is included in the accompanying balance sheet.

Reserve for MIP and insurance impounds of \$11,288 and \$4,672, respectively, totaling \$15,960 represent amounts held for the future payment of property and mortgage insurance.

All cash and investments are entirely insured and collateralized.

Details of cash and investments are as follows:

Union Bank Checking Account	\$ 77,591
First Private Bank & Trust	44,145
GMAC Commercial Mortgage	15,960
GMAC Commercial Mortgage	498,034
GMAC Commercial Mortgage	<u>225,727</u>
Total funds in financial institutions	<u>\$861,457</u>

(e) Depreciation

Depreciation of property and equipment at cost is provided on the straight-line method over the following estimated useful lives:

Building	50 years
Improvements and equipment	5 to 41 years

(f) Income Taxes

Neither the Project nor its government owner is subject to income taxes.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Morgan Towers Enterprise Fund

Notes to the Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(g) Distributions

The Project's regulatory agreement with HUD stipulates, among other things, that the Project will not make distributions of assets or income to any of its officers or directors.

(h) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(2) Capital Assets

Capital Assets consist of the following at June 30, 2009:

Land	\$ 212,568
Building and improvements	7,138,365
Furniture and equipment	<u>147,960</u>
	7,498,893
Accumulated depreciation	<u>(4,509,717)</u>
	<u>\$2,989,176</u>

Depreciation expense for the year ended June 30, 2009 was \$241,130.

(3) Net Assets

Net Assets are restricted and accounted for in accordance with criteria prescribed by HUD.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Morgan Towers Enterprise Fund

Notes to the Financial Statements

(Continued)

(4) Mortgage Payable

A mortgage loan secured by the property is payable to GMAC. The original note was dated March 1, 1978 in the amount of \$5,125,000. Payments of principal and interest at 6.5% aggregating \$30,005 are made monthly with the final payment due August 1, 2019. The unpaid principal portion of the note at June 30, 2009 was \$2,673,586. The principal portion of long-term debt maturities is as follows:

<u>Year Ended</u>	<u>Amount</u>
2010	\$ 191,924
2011	204,776
2012	218,492
2013	233,124
2014	248,742
2015 and thereafter	<u>1,576,528</u>
	2,673,586
Less current portion	<u>(191,924)</u>
Long-term portion	<u>\$2,481,662</u>

The note is insured by HUD and is secured by substantially all property and equipment included in the accompanying balance sheet.

(5) Management Fee

The Morgan Towers Enterprise Fund pays a management fee equal to 4.25% of cash receipts to Falkenberg/Gilliam & Associates, Inc.

(6) Contingent Liabilities

The Community Development Commission of the City of National City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the government's counsel that resolution of these matters will not have a material adverse effect on the financial condition of the government.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Morgan Towers Enterprise Fund

Notes to the Financial Statements

(Continued)

(7) Concentrations

The Morgan Tower Enterprise Fund received approximately 53% of its revenues for the year ended June 30, 2009 through subsidies from the U.S. Department of Housing and Urban Development. Without this source of revenues, Morgan Tower Enterprise Fund would have difficulty operating its programs.

SUPPLEMENTARY INFORMATION

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COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Morgan Towers Enterprise Fund

HUD Project No. 129-38013-PB-WAH-L8

Supplementary Information Required by HUD

Year Ended June 30, 2009

(1) Reserve for Replacement and Residual Receipts Account

In accordance with the provisions of the regulatory agreement, restricted cash is held to be used for replacement of property, with the approval of HUD, as follows:

	<u>Reserved for Replacement</u>	<u>Residual Receipts</u>
Balance, July 1, 2008	\$453,068	142,250
Monthly deposits (\$3,127 x 12)	37,524	-
Surplus cash transfer	-	80,431
Reserve credits	500	299
Interest earned	<u>6,942</u>	<u>2,747</u>
Balance, June 30, 2009 confirmed by depository	<u>\$498,034</u>	<u>225,727</u>

The reserve for replacement and residual receipts accounts are at GMAC Commercial Mortgage, and are comprised of cash held at Escrow Bank as follows:

	<u>Reserved for Replacement</u>	<u>Residual Receipts</u>
Cash	<u>\$498,034</u>	<u>225,727</u>

(2) Accounts Payable (Other than Trade Creditors)

There are no accounts payable other than trade creditors.

(3) Compensation of Officers

No compensation was paid to any officer of Morgan Towers.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Morgan Towers Enterprise Fund

HUD Project No. 129-38013-PB-WAH-L8

Supplementary Information Required by HUD

(Continued)

(4) Identity-In-Interest Firms

None.

(5) Due to Other Funds

None.

(6) Tenant Security Deposits

Tenant security deposits are held at First Private Bank & Trust in an account insured by the Federal government that is in the name of the Project. At June 30, 2009, the account consisted of \$44,145 in cash.

(7) Change in Capital Assets Account

<u>Description</u>	<u>Assets</u>		
	<u>Balance at July 1, 2008</u>	<u>Additions</u>	<u>Balance at June 30, 2009</u>
Land	\$ 212,568	-	212,568
Buildings and improvements	7,120,305	18,060	7,138,365
Equipment	147,960	-	147,960
	<u>\$7,480,833</u>	<u>18,060</u>	<u>7,498,893</u>

<u>Description</u>	<u>Accumulated Depreciation</u>		
	<u>Balance at July 1, 2008</u>	<u>Additions</u>	<u>Balance at June 30, 2009</u>
Buildings and improvements	\$4,183,224	224,661	4,407,885
Equipment	85,363	16,469	101,832
	<u>\$4,268,587</u>	<u>241,130</u>	<u>4,509,717</u>

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
HOUSING - FEDERAL HOUSING COMMISSIONER
OFFICE OF MULTIFAMILY HOUSING MANAGEMENT AND OCCUPANCY
**COMPUTATION OF SURPLUS CASH, DISTRIBUTIONS AND
RESIDUAL RECEIPTS**

PROJECT NAME Morgan Towers		FISCAL PERIOD ENDED: 6 / 30 / 2009	PROJECT NUMBER 129-38013-PB-WAH-L8
PART A - COMPUTE SURPLUS CASH			
CASH	1. Cash (Accounts 1110, 1120, 1191, 1192)	\$ 121,911	
	2. Tenant subsidy vouchers due for period covered by financial statement	\$	
	3. Other (describe)	\$	
	(a) Total Cash (Add Lines 1, 2, and 3)		
CURRENT OBLIGATIONS	4. Accrued mortgage interest payable	\$	
	5. Delinquent mortgage principal payments	\$	
	6. Delinquent deposits to reserve for replacements	\$	
	7. Accounts payable (due within 30 days)	\$ 68,103	
	8. Loans and notes payable -- (due within 30 days)	\$	
	9. Deficient Tax Insurance or MIP Escrow Deposits	\$	
	10. Accrued expenses (not escrowed)	\$ 17,320	
	11. Prepaid Rents (Account 2210)	\$	
	12. Tenant security deposits liability (Account 2191)	\$ 44,145	
	13. Other (Describe)	\$	
(b) Less Total Current Obligations (Add Lines 4 through 13)		\$ 129,568	
(c) Surplus Cash (Deficiency) (Line (a) minus Line (b))		\$ (7,657)	
PART B - COMPUTE DISTRIBUTIONS TO OWNERS AND REQUIRED DEPOSIT TO RESIDUAL RECEIPTS			
LIMITED DIVIDEND PROJECTS	1. Surplus Cash	\$	
	2a. Annual Distribution Earned During Fiscal Period Covered by the Statement	\$	
	2b. Distribution Accrued and Unpaid as of the End of the Prior Fiscal Period	\$	
	2c. Distributions Paid During Fiscal Period Covered by Statement	\$	
	3. Amount to be Carried on Balance Sheet as Distribution Earned but Unpaid (Line 2a plus 2b minus 2c)	\$	
4. Amount Available for Distribution During Next Fiscal Period		\$	
5. Deposit Due Residual Receipts (Must be deposited with Mortgagee within 60 days after Fiscal Period ends)		\$	
PREPARED BY		REVIEWED BY	
LOAN TECHNICIAN		LOAN SERVICER	
DATE		DATE	

(See Reverse for Instructions)

HUD-93486 (12-80)

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SINGLE AUDIT REPORT ON FEDERAL AWARDS

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**REPORT ON COMPLIANCE AND OTHER MATTERS AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS***

Board of Directors
Community Development Commission of the City of National City
National City, California

We have audited the financial statements of the Morgan Towers Enterprise Fund of the Community Development Commission of the City of National City (the "Commission"), as of and for the year ended June 30, 2009, and have issued our report thereon dated September 18, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Commission's financial statements that is more than inconsequential will not be prevented or detected by the Commission's internal control.

Board of Directors
Community Development Commission of the City of National City
Page Two

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Commission's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily disclose all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Commission's Board of Directors, management, and the Department of HUD and is not intended to be and should not be used by anyone other than these specified parties.

Nayer Hoffman McCann P.C.

Irvine, California
September 18, 2009



Mayer Hoffman McCann P.C.

An Independent CPA Firm

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM, INTERNAL CONTROL OVER COMPLIANCE
AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors
Community Development Commission of the City of National City
National City, California

Compliance

We have audited the compliance of the Morgan Towers Enterprise Fund of the Community Development Commission of the City of National City (the "Commission"), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The Commission's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the Commission's management. Our responsibility is to express an opinion on the Commission's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Commission's compliance with those requirements.

In our opinion, the Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of the Commission is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Commission's internal control over compliance with requirements that could have a direct and

Board of Directors
Community Development Commission of the City of National City
Page Two

material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Commission's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Commission's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Commission as of and for the year ended June 30, 2009, and have issued our report thereon dated September 18, 2009. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the Commission's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended for the information and use of the Commission's Board of Directors, management, and the Department of HUD and is not intended to be and should not be used by anyone other than these specified parties.

Mayer Hoffman McCann P.C.

Irvine, California
September 18, 2009

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Morgan Towers Enterprise Fund

HUD Project No. 129-38013-PB-WAH-L8

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2009

<u>Federal Grantor/ Program Title</u>	<u>CFDA Number</u>	<u>Grant Identification Number</u>	<u>Federal Financial Assistance Expended</u>
U.S. Department of Housing and Urban Development:			
Section 8 Housing Assistance Payments Program	14.871	CA 60006011	<u>\$ 613,345*</u>
Supportive Housing for the Elderly	14.157	CA 60006011	<u>\$2,673,586*</u>
Total expenditures of federal awards			<u>\$3,286,931</u>

* Major program.

See accompanying notes to the Schedule of Expenditures of Federal Awards.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Morgan Towers Enterprise Fund

HUD Project No. 129-38013-PB-WAH-L8

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2009

(1) Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards

(a) Scope of Presentation

The accompanying schedule presents only the expenditures incurred by the Morgan Towers Enterprise Fund that are subsidized under the federal program of federal agency providing financial assistance. For purposes of this schedule, financial assistance includes federal financial assistance received directly from a federal agency. Only the portion of program expenditures reimbursable with such federal funds are reported in the accompanying schedule.

(b) Basis of Accounting

The expenses included in the accompanying schedule were reported on the accrual basis of accounting.

(c) Subrecipients

There were no payments of federal funds to subrecipients for the year ended June 30, 2009.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Morgan Towers Enterprise Fund

HUD Project No. 129-38013-PB-WAH-L8

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2009

(1) Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards, (Continued)

(d) Mortgage Payable

A mortgage loan secured by the property is payable to GMAC,. The original note was dated March 1, 1978 in the amount of \$5,125,000. Payments of principal and interest at 6.5% aggregating \$30,005 are made monthly with the final payment due August 1, 2019. The unpaid principal portion of the note at June 30, 2009 was \$2,673,586. The principal portion of long-term debt maturities is as follows:

<u>Year Ended</u>	<u>Amount</u>
2010	\$ 191,924
2011	204,776
2012	218,492
2013	233,124
2014	248,742
2015 and thereafter	<u>1,576,528</u>
	2,673,586
Less current portion	<u>(191,924)</u>
Long-term portion	<u>\$2,481,662</u>

The note is insured by HUD and is secured by substantially all property and equipment included in the accompanying balance sheet.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Morgan Towers Enterprise Fund

HUD Project No. 129-38013-PB-WAH-L8

Schedule of Findings and Questioned Costs

Year Ended June 30, 2009

(A) Summary of Auditors' Results

1. An unqualified report was issued by the auditors on the financial statements of the auditee.
2. There were no material weaknesses in internal control based upon our audit of the financial statements of the auditee.
3. The audit disclosed no noncompliance that is material to the financial statements of the auditee.
4. There were no material weaknesses in internal control over major programs of the auditee.
5. An unqualified report was issued by the auditors on compliance for major programs.
6. The audit disclosed no audit findings required by the auditors to be reported under paragraph .510(a) of OMB Circular A-133.
7. The major program of the auditee was U.S. Department of Housing and Urban Development CFDA #14.871 – Section 8 Housing Assistance Payments Program and CFDA #14.157 – Supportive Housing for the Elderly.
8. The dollar threshold used to distinguish Type A and Type B program was \$300,000.
9. The auditee was considered a low risk auditee as defined by OMB Circular A-133 for the year ended June 30, 2009 for purposes of determining major programs determination.

(B) Findings Related to the Financial Statements which are Required to be Reported in Accordance with GAGAS

There were no audit findings required to be reported in accordance with GAGAS.

(C) Findings and Questioned Costs for Federal Awards as Defined in Paragraph .510(a) at OMB Circular A-133

There were no auditors' findings to be reported in accordance with paragraph .510(a) at OMB Circular A-133.

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Morgan Towers Enterprise Fund

HUD Project No. 129-38013-PB-WAH-L8

Summary Schedule of Prior Audit Findings

Year Ended June 30, 2009

There was no audit finding from the previous audit report issued for the year ended June 30, 2008.

September 18, 2009

COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Morgan Towers Enterprise Fund

HUD Project No. 129-38013-PB-WAH-L8

CERTIFICATE OF OFFICER

We hereby certify that we have examined the accompanying financial statements and supplementary information of the Morgan Towers Enterprise Fund and, to the best of our knowledge and belief, the same is complete and accurate.

Dated: _____

Community Development Commission
of the City of National City

By: _____
Executive Director

September 18, 2009

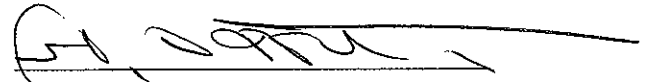
**COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF NATIONAL CITY
Morgan Towers Enterprise Fund**

HUD Project No. 129-38013-PB-WAH-L8

MANAGEMENT AGENT'S CERTIFICATION

We hereby certify that we have examined the accompanying financial statements and supplementary information of the Morgan Towers Enterprise Fund and, to the best of our knowledge and belief, the same is complete and accurate.

Dated: 9-30-09 Falkenberg/Gilliam & Associates, Inc.

By: 

Federal Identification No. 95-3313687

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